

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Great Oaks Water Company (U-162-W) for an Order authorizing it to increase rates charges for water service by \$3,480,305 or 18.18% in 2019, by \$1,689,521 or 7.47% in 2020, and by \$1,576,419 or 6.48% in 2021.

Application 18-07-002

**DECISION ADOPTING A SETTLEMENT AGREEMENT CONCERNING
THE GENERAL RATE CASE FOR GREAT OAKS WATER COMPANY**

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ATTACHMENT 1

**DECISION ADOPTING A SETTLEMENT AGREEMENT CONCERNING
THE GENERAL RATE CASE FOR GREAT OAKS WATER COMPANY****Summary**

This decision resolves the Great Oaks Water Company (Great Oaks) General Rate Case (GRC) by granting the joint motion for adoption of the settlement between Great Oaks and the Public Advocates Office (collectively, the Parties¹), and authorizing a revenue requirement for Great Oaks for the Test Year 2019 – 2020 and additional revenue requirements for each of the two following twelve- month periods, 2020-2021 and 2021-2022.

A revenue requirement of \$20,836,321 is adopted for Test Year 2019 – 2020 (Test Year).² As a result of this decision, during the Test Year, the two-month bill for the average residential customer will decrease by \$3.97 to \$90.47, compared to the current two-month bill of \$94.44 for the same customer.

Beginning July 1, 2020, the two-month bill to the average Great Oaks customer is estimated to be \$94.59, as compared to the current \$94.44.

¹ The Parties include Great Oaks, the utility applicant in A.18-07-002, and the Public Advocates Office, which represents the interests of ratepayers. There are no other parties. In this decision, we refer to the Public Advocates Office as “CalAdvocates.”

² See Settlement Workpapers, attached as Exhibit A to the Settlement Agreement, page WP-1.

The Settlement Agreement is attached to the Parties’ Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, and the Parties have labeled it “Exhibit A” to their Corrected Joint Motion. The Corrected Joint Motion can be found on the docket sheet for this proceeding at:

https://apps.cpuc.ca.gov/apex/f?p=401:56:0::NO:RP,57,RIR:P5_PROCEEDING_SELECT:A1807002.

The Settlement Agreement itself has two documents attached to it. The first (also labeled by the Parties as “Exhibit A”) consists of the Parties’ Settlement Workpapers; the second (labeled “Exhibit B”) contains the Parties’ Comparison Exhibit. Both documents are on file with the Parties Corrected Joint Motion to Adopt Settlement Agreement. Only the Parties’ Comparison Exhibit is physically attached to this decision, as Attachment 1.

On July 1, 2021, the average customer's bi-monthly bill is estimated to rise above current rates by \$4.02 (from \$94.44 to \$98.46), resulting in an overall 4.3 percent rate increase for the average residential customer over the three-year period covered by this general rate proceeding.

The settlement requires Great Oaks to (1) advance efforts to improve the quality of the water Great Oaks delivers;³ (2) improve its emergency preparedness;⁴ and (3) upgrade its asset management program.⁵

For Great Oaks' benefit, the Settlement Agreement includes additional financial security against substantial drops in sales volumes during potential extreme drought years by incorporating 75 percent of its fixed costs into its service charge.⁶

The settlement is approved, and this proceeding is closed.

1. Procedural Background

Great Oaks is a Class A water company, regulated by the Commission. The Great Oaks headquarters are in San Jose. Its water sources are located within the Santa Clara Valley Water District. The utility's service area includes mostly residential portions of San Jose, south of the city center, and some agricultural and commercial businesses as well. Its customers are mostly owners of single-family homes.

³ See section 2.3, below.

⁴ See section 2.19, below.

⁵ *Ibid.*

⁶ See section 2.16, below.

On July 2, 2018, Great Oaks filed its general rate case application, A. 18-07-002. CalAdvocates filed a protest on August 7, 2018. On August 20, 2018, Great Oaks served updates and corrections to its general rate case application pursuant to the Rate Case Plan (Decision (D.) 07-05-062 and D. 04-04-018).⁷

On August 31, 2018, Great Oaks filed its Rule 3.2 Compliance Filing. A Prehearing Conference (PHC) was held before Administrative Law Judge (ALJ) Charles Ferguson on October 8, 2018. At the PHC, Great Oaks' request to include in its service charge 100 percent of its fixed costs was identified as a key issue in this proceeding.⁸

On November 1, 2018, CalAdvocates served its report; and Great Oaks responded with its rebuttal testimony on November 16, 2018.⁹

Two PPHs were scheduled by the ALJ, one in the afternoon and one in the evening of November 29, 2018. At the request of City of San Jose public officials, the PPHs were held within the service area of Great Oaks instead of the central business district of San Jose where they had historically been held. Relocating the PPHs to the Santa Teresa Public Library, which is within the service area for Great Oaks, noticeably increased attendance. Notwithstanding the fact that November 29, 2018 was a stormy day, two to three dozen persons attended each session and many of the attendees at each session spoke to the issues.

⁷ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, at 3.

⁸ PHC Transcript, 10/8/18, at 22, line 11 - 28, line 14.

⁹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, at 4.

Questions and concerns raised by the audiences at the PPHs can be grouped into three categories: (1) water quality; (2) conservation measures; and (3) rate increases.

On the issue of water quality, participants in the PPHs asked if Great Oaks was providing water that met minimum state-mandated water quality standards.¹⁰ Great Oaks answered that question in the affirmative.¹¹ And, in the settlement we approve today Great Oaks obligates itself to add staff to work with CalAdvocates further to improve the quality of its water service and safety.¹²

In response to statements from the PPH audiences regarding water conservation measures, Great Oaks asserted that its efforts to educate its customers about conservation were working well, citing the fact that it has been selling measurably less water than it did in the past.¹³ It further assured the attendees at the PPHs that its rate request would not put customers at risk for severe penalties like those that were imposed during drought years 2015 – 2017.¹⁴

Responding to questions about reasons for proposing a rate hike, Great Oaks said that its agricultural customers were not the reason for proposing higher residential rates.¹⁵ Nor was Great Oaks proposing to raise the salaries of some or all employees so significantly as to cause a rate hike.¹⁶ Great Oaks explained that two important factors underlying its request to raise rates were

¹⁰ PPH Transcript, 11/29/2018, at 20, lines 18 – 22; at 35, lines 14-27.

¹¹ *Id.* at 20, line 3 – 23, line 21; *see also id.* at 35, line 14 – 37, line 11.

¹² *See* section 2.3, below.

¹³ *See, e.g.,* PPH Transcript, 11/29/2018, at 28, lines 21 – 30, line 25; *see also, id.* at 87, lines 22- 28; *and* at 95, line 13 – 96, line 8.

¹⁴ PPH Transcript, 11/29/2018, at 87, lines 22 - 28.

¹⁵ PPH Transcript, 11/29/2018, at 36, line 22 – 37, line 10.

¹⁶ *Id.*, at 89, lines 8 – 90, line 6; *and* at 92, lines 16 – 23.

the Santa Clara Valley Water District's increases in its groundwater charges,¹⁷ which Great Oaks has resisted in court,¹⁸ and Great Oaks' desire to achieve greater financial security by embedding 100 per cent of fixed costs in its service charge.¹⁹

Attendees also inquired about the availability of a CARE-type program and whether a senior discount program could be instituted.²⁰ Great Oaks has a low-income assistance program,²¹ but offered no assurances of a senior specific discount.

On December 20, 2018 the Commission issued its decision in Great Oaks' cost-of-capital proceeding, A. 18-05-001, lowering its cost of capital from 9.10 percent to 8.15 percent and making the new cost of capital effective July 1, 2019.²²

On March 8, 2019, the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued.

On April 22, 2019, Great Oaks filed a motion for interim rates, should interim rates be necessary. The motion requested increasing current rates by an inflation escalator, and incorporating the new cost of capital, should the Commission not issue a final decision on rates for Great Oaks by July 1, 2019.

On May 1, 2019, the Parties participated in a mediation facilitated by an ALJ neutral. On May 14, 2019, the Parties jointly filed two motions, a Motion for Adoption of Settlement Agreement and a Motion to Admit portions of their

¹⁷ *Id.*, at 67, lines 15 – 27.

¹⁸ *Id.*, at 40, line 22 – 41, line 12.

¹⁹ *See, e.g., id.*, at 24, line 15 – 26, line 2.

²⁰ *Id.*, at 38, lines 15 – 18 (CARE); and at 93, line 10 – 94, line 25 (senior discount).

²¹ *Id.* at 38, lines 19 – 26.

²² D. 18-12-002.

respective testimony and exhibits. Their Motion for Adoption of Settlement Agreement was followed on May 20, 2019 by a second version of the same motion in order to correct critical typographical errors in the Settlement Agreement itself.

This decision grants the May 20, 2019 Motion for Adoption of the Corrected Settlement Agreement and the May 14, 2019 Motion to Admit Written Testimony and Supporting Exhibits.

On June 24, 2019, the assigned ALJ issued a ruling on Great Oaks' April 22, 2019 motion for interim rates, directing Great Oaks (1) to continue the current rates, without any inflation escalator; (2) to incorporate the newly approved cost-of-capital (8.15 percent); and (3) to establish a memorandum account to track the difference between the interim rates and the rates subsequently ordered in this decision and true them up in a reasonably short period of time.

2. Overview of the Settlement Negotiations

Great Oaks and CalAdvocates, the only parties to this proceeding, settled all the issues presented in this GRC. The major settled issues are identified here and discussed in further detail below.

In the Settlement Agreement, the Parties agreed that Great Oaks may include up to 75 percent of its fixed costs in its service charge. Great Oaks agreed to reduce rates by 4.2 percent for the first year of the rate cycle and charge rates approximately equal to current rates in the second year, before raising rates by an estimated 4.3 percent in the third year. Great Oaks also agreed: (1) to implement in this rate case cycle a system-wide program to increase the safety and quality of the water it delivers; (2) to acquire and use an asset management

software program that will improve the safety and reliability of its capital assets; and (3) to reduce certain other expenditures it had proposed.

The result of the various concessions and trade-offs incorporated into the Settlement Agreement, coupled with a nearly one percent point reduction in Great Oaks' rate of return, is that, compared to the rates currently in effect, the average Great Oaks customers will pay lower bills beginning July 1, 2019 through June 30, 2020. From July 1, 2020 to June 30, 2021, it is estimated they will pay less than one dollar more over an entire year compared to current rates. After July 1, 2021, rates will increase for the average residential customer, but only so much as to result in an estimated 4.3 percent increase as compared to current rates.²³

Salient details of the settlement follow.

2.1 Total Water Production:

Forecasts

The Parties resolved all differences between them concerning customer forecast,²⁴ meter number and sizes²⁵ and projected water production and sales.²⁶ This resulted in a projected average usage of 118.44 ccf per year for single-family residential usage, or approximately 10 ccf per month.²⁷

²³ See text accompanying fn. 2, above.

²⁴ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 3 - 4.

²⁵ See *id.*, Exhibit A, at 4 - 5.

²⁶ See *id.*, Exhibit A, at 6 - 8.

²⁷ *Ibid.*

2.2 Operations & Maintenance/Administrative & General Expenses: Groundwater Charges (Account 700)

In the PPHs for this proceeding, one recurring complaint heard from customers concerned the groundwater charges levied against Great Oaks by the Santa Clara Valley Water District (SCVWD) and subsequently passed on to Great Oaks' customers.²⁸

CalAdvocates scrutinized the groundwater charges Great Oaks proposed to collect from ratepayers, particularly Great Oaks' choice of a water zone from which to take the bulk of its water. Great Oaks has only two alternatives. One source (Zone 5) is taxed at a much lower rate than the other source (Zone 2). CalAdvocates preferred maximum utilization of the lower cost groundwater from Zone 5. However, Zone 5's production capacity is declining, according to Great Oaks. During their settlement discussions, the Parties agreed that, of necessity, Zone 2 would supply more water to Great Oaks than Zone 5. Specifically, Zone 2 will supply 56 percent of the water for Great Oaks and Zone 5 will supply 44 percent. The projected cost to Great Oaks and its customers associated with this source allocation regime, which both parties approved, is \$10,284,886, nearly \$2 million less than what Great Oaks initially requested for Santa Clara Water Valley District charges.²⁹

2.3 Operations & Maintenance/Administrative & General Expenses:

²⁸ See *e.g.*, text accompanying footnotes 7 – 19, above; PPH Transcript at page 40, lines 8 – 19 (a PPH attendee refers to Great Oaks as the “golden spigot” for Santa Clara Valley Water District). One customer also pointed out that all residential property owners were also required by Santa Clara County to pay additional fees as part of their annual property taxes to benefit SCVWD. See *ibid.*, at 77, line 26 – 78, line 18.

²⁹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 9 - 12.

Water Quality Expenses

Another customer concern repeated at the PPHs involved water quality.³⁰ On this matter, pursuant to the decision in *Hartwell Corp. v. Superior Court*, 27 Cal. 4th 256 (2002), our own decision D. 07-05-062 and General Order 103-A, the Commission must decide if Great Oaks has delivered significant quantities of contaminated water to any of its customers or failed to meet any of the safe drinking water standards of the federal or state governments. The State Water Resources Control Board, Division of Drinking Water requires all water companies in California regularly to test and report on the results of all tests of the purity of the potable water they serve to the public. All reports showing significant contamination must be reported not only to the Water Resources Control Board but also this Commission.

No evidence of significant organic or chemical contamination in the potable water served by Great Oaks has been reported to the Commission during 2018 or 2019. Nor has the Commission's Water Division been notified by the Division of Drinking Water that Great Oaks has failed to comply with federal or state quality control standards.

Consistent with the absence of any negative report on the quality of the water it serves, in its application Great Oaks projected spending relatively little on water quality items during the next three years. However, CalAdvocates took the position that continuous disinfection of Great Oaks' entire water system by chlorination, instead of just a portion of it, would improve the quality of water

³⁰ Mostly customers asked whether chemical pollutants from departed technology companies were still being found in the water sources. They were not. *See* PPH Transcript, 11/29/2018, at 20, lines 18 – 28; at 21, line 22 – 22, line 3; at 35, lines 19 – 27; at 36, lines 18 – 20.

Great Oaks supplies. CalAdvocates recommended that Great Oaks install, maintain and utilize water treatment capabilities throughout its entire water system, prior to its 2022/2023 Test Year for its General Rate Case application in 2021. Great Oaks agreed to do so as part of the settlement.³¹

Great Oaks' agreement to institute a system-wide water treatment program during the current GRC cycle affected several expense items (its net payroll, pension benefits, expenditures for chemicals and filters and cost of outside services). As part of the settlement agreement, Great Oaks will add one full-time employee to work with the California State Water Resources Control Board's Division of Drinking Water to establish a system-wide disinfection process that will be in effect by July 1, 2022, the first day of the Test Year for Great Oaks' next general rate case. Great Oaks also pledged to use the additional employee to keep CalAdvocates fully informed during the next three years of the progress being made to accomplish the recommended improvement in water quality. As a result of the settlement agreement on water quality, Great Oaks added \$159,244 to its estimate of Test Year net payroll expenses³²; \$2,123 to annual benefits expenses;³³ \$100,000 to annual expenses for chemicals and filters³⁴; and, \$242,701 for outside services expenses in the Test Year.³⁵

³¹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 15.

³² See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 9.

³³ *Id.*, at 21-22.

³⁴ *Id.*, at 15-16.

³⁵ *Id.*, at 23-24.

2.4 Rate Base:**Capital Additions to Plant-in-Service**

After a field investigation, analysis of Great Oaks' responses to data requests, as well as Great Oaks' testimony, CalAdvocates recommended approval of Great Oaks' proposed investments. The cost of the aggregate capital additions to plant-in-service proposed by Great Oaks in each year are: \$1,849,770 in the Test Year (2019-2020); \$1,346,810 in the Escalation Year (2020-2021); and \$1,078,810 in the Escalation Year (2021-2022).³⁶

Included in the amount for the Test Year is a purchase recommended by CalAdvocates. Cal Advocates recommended that Great Oaks provide a comprehensive asset management plan with its next rate case application to facilitate review by both CalAdvocates and the Commission, as well as improve the safety and reliability of Great Oaks' plant-in-service. Great Oaks agreed to do so and proposed purchasing an asset management software program that had been pre-approved by CalAdvocates. This proposed software purchase was then added to Great Oaks' initial projection for Account 372; it represents the largest such investment in the Test Year at \$543,842

2.5 Rate Base:**Depreciation**

With respect to depreciation reserve and depreciation expense, CalAdvocates accepted the methodologies Great Oaks used to make the calculations. However, CalAdvocates found minor errors in the calculations themselves. Great Oaks accepted the corrections. The Parties settled on

³⁶ *Id.*, at 29 - 31.

\$26,398,808 for the sum of the average accumulated depreciation in the Test Year and \$1,454,123 for depreciation expense in the same year.³⁷

2.6 Rate Base:

Deferred and Reserved Taxes

This item in the settlement package is intended to normalize prior revenues collected from ratepayers by Great Oaks for deferred taxes and the new Tax Cuts and Jobs Act of 2017 (TCJA), which reduced the federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018. The excess federal tax related to plant-in-service items (called “protected” deferred taxes) amounts to \$496,617.³⁸ It represents the difference between what Great Oaks would have collected from ratepayers if the tax rate had been 21 percent instead of 35 percent from the time at which Great Oaks began collecting rates to pay deferred taxes.

Federal tax regulations require that the accumulated protected deferred taxes be returned to ratepayers in equal partial disbursements over the average useful life of all plant-in-service assets of the taxpayer. The Parties have agreed that the average useful life of Great Oaks plant-in-service is 34 years. Hence, Great Oaks will record \$496,617 as a liability to be refunded to the customers in the amount of \$14,474 annually over a 34-year period.

The excess deferred taxes that are unrelated to plant-in-service assets will be returned to ratepayers on an accelerated schedule, as discussed in Section 2.11 below.

³⁷ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 31 - 32.

³⁸ Excess federal taxes related to non-plant assets (so-called “unprotected” deferred taxes) are treated differently than those related to plant assets. See discussion in section 2.14, below.

Insofar as the effect on rate base is concerned, the Parties further agreed that the rate base for Great Oaks would be reduced by \$496,474 in the Test Year and the rate base would be increased in each year thereafter by \$14,474, for 34 consecutive years.³⁹

2.7 Rate Base:

Contributions in Aid of Construction/Advances for Construction

The Parties agreed to use Great Oaks' calculations for both Contributions in Aid of Construction (CIAC) and Advances for Construction (AFC) during the Test Year. The agreed value of the former is \$2,371,380 and for the latter, it is \$4,417,917. Great Oaks provided detailed back-up data to justify these calculations and CalAdvocates advanced no objections after studying the data and calculations supplied by Great Oaks.⁴⁰

2.8 Rate Base:

Working Cash

The Parties used separate calculation methods, both approved by this Commission, to calculate the working cash component of rate base. Great Oaks chose the Commission's "simplified" method, whereas CalAdvocates chose the Commission's "detailed" method for making the same calculation. The Parties were unable to reach agreement on which method was better suited to this proceeding. Consequently, they negotiated over specific cash amounts, plus a commitment by Great Oaks to provide a comparison of the two methodologies in the next general rate case, along with support for the methodology it adopts at that time. The Parties agreed upon the following cash amounts: (1) \$1,759,849 for

³⁹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 32.

⁴⁰ See *id.*, at 33.

the Test year (2019-2020) and (2) \$1,943,714 for the Escalation year (2020-2021), which are the mid-points between their respective, initial proposed amounts.⁴¹

2.9 Rate Base:

Final Calculation

The rate base for the Test Year (2019-2020) resulting from the proposed settlement is \$16,093,219.⁴² This is approximately the mid-point between the respective, initial proposals by Great Oaks and CalAdvocates.

The rate base for the Escalation year (2020-2021) resulting from the proposed settlement is \$16,788,980, approximately \$600,00 closer to CalAdvocates' initial proposed figure than to Great Oaks' initial proposal.⁴³

2.10 Balancing Accounts:

Existing Balancing Accounts

CalAdvocates supports continued maintenance of all six balancing accounts previously approved for Great Oaks.⁴⁴ Neither party requests the closure of a balancing account.

In addition to agreeing that the Surcharge Balancing Account for Great Oaks' Low-Income Customer Assistance Program (LICAP) should be maintained, the Parties agreed that the LICAP benefit itself should be updated

⁴¹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 33 - 34.

⁴² The rate of return for Great Oaks for the Test Year is 8.15 percent, down from 9.10 percent. See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, Work Paper WP- 1.

⁴³ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 34.

⁴⁴ See *id.*, at 34 - 35. The Parties agreed that Great Oaks should maintain the following, previously authorized balancing accounts: Purchased Power; Pump Tax, Non-Agricultural Service; Pump Tax, Agricultural Service; Low- Income Customer Assistance Program (LICAP); Pension Expense; and Monterey-Style Water Revenue Adjustment Mechanism.

consistent with the rates and rate design reflected in their Settlement Agreement. The following table from the Settlement Agreement illustrates this aspect of the Parties' agreement:

LICAP Cost and Surcharge Calculation

Meter Size	Monthly Charge	50% Discount	Yearly Discount	Participants	Totals
5/8 x 3/4	\$14.91	\$7.455	\$89.46	823	\$73,625.58
¾ x ¾	\$22.36	\$11.18	\$134.16	1,635	\$219,351.60
1-inch	\$37.26	\$18.63	\$223.56	4	\$894.24
1.5-inch	\$74.53	\$37.265	\$447.18	2	\$894.36
			Total LICAP Amount		\$294,765.78
			Divided by Non-LICAP Sales		4,014,392
			LICAP Surcharge per CCF		\$0.0734

The Settlement Agreement also allows Great Oaks to initiate a temporary surcharge to collect the following amounts from balancing and memorandum accounts associated with LICAP: \$293,748 from the LICAP memorandum account (excluding interest after July 1, 2016); \$107,778 plus interest accrued through the date of filing for recovery from the LICAP Surcharge Balancing Account; and \$91,970 plus interest through the date of filing for recovery from the under-collected balance of the Advice Letter 244-W-B authorized recovery. Great Oaks is hereby authorized to file an advice letter to recover such amounts. Great Oaks may also combine the recovery of the LICAP amounts noted above with other recoveries and offset, as appropriate.⁴⁵

2.11 Memorandum Accounts:

Accounts That CalAdvocates Proposed Amortizing

CalAdvocates recommended closing two of Great Oaks' memorandum accounts, the Tax Cuts and Jobs Act (TCJA) Memorandum Account and the Conservation Lost Revenue and Expense Memorandum Account. After further

⁴⁵ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 39 - 40.

negotiations, Great Oaks agreed to close both accounts.⁴⁶ Without the need for any negotiations, the Parties agreed that six other, previously authorized, memorandum accounts should be maintained.⁴⁷

With respect to the first of the two memorandum accounts that CalAdvocates initially recommended closing and now both Parties agree should be closed, the TCJA Memo Account contains excess accumulated deferred taxes that are “unprotected” as that term is defined in federal tax regulations. In other words, the accumulated deferred tax monies in this account are completely unrelated to plant-in-service assets.⁴⁸ Accordingly, the Commission has discretion to order the return of funds in this account to ratepayers on a schedule prescribed by the Commission, rather than as mandated by the federal government. The account balance is \$72,125 and the Parties have agreed that Great Oaks should make three annual disbursements in the amount of \$24,041.66 to its ratepayers.⁴⁹ The three-year disbursement period comports with the Commission’s policy to ensure that money to be refunded to ratepayers is refunded in a reasonably short period of time.

With respect to the second memorandum account that CalAdvocates initially recommended fully amortizing during the course of this rate case cycle,

⁴⁶ See *id.*, at 35 - 36.

⁴⁷ *Ibid.* The memorandum accounts to be maintained are: Santa Clara Valley Water District Memorandum Account; City of San Jose Litigation Memorandum Account; Water Cost of Capital Adjustment Mechanism; Drinking Water Fees Memorandum Account; School Lead Testing Memorandum Account; and Catastrophic Event Memorandum Account.

⁴⁸ See discussion of “protected” versus “unprotected” accumulated deferred taxes in section 2.6, above.

⁴⁹ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 40.

the Conservation Lost Revenue and Expense Memorandum Account,⁵⁰ the Parties agreed that Great Oaks should fully amortize the balance in the account (\$2,624,254), by taking into income, on or after January 1, 2020, that same amount from Excess Usage Surcharges collected during the period of time that emergency drought allocations were in effect and then close the account after a final decision in this proceeding, provided no further drought emergencies occur in the interim. The Parties further agreed that if there are any funds remaining in the Conservation Lost Revenue account at the point in time when it is closed, those funds may be used to amortize under-collected balances in other balancing or memorandum accounts during this three-year rate cycle. If any further funds remain thereafter, Great Oaks will use them as a deduction from authorized revenues in rate case year 2022 – 2023.⁵¹

2.12 Memorandum Accounts:

Accounts That Great Oaks Proposed Amortizing

Great Oaks initially proposed amortizing the Contamination Proceeds Memorandum Account by apportioning the entire amount in this account to its shareholders and then closing the account. CalAdvocates disagreed. According to the settlement agreement, the funds in the account, \$676,200, will be split between ratepayers and shareholders. The shareholders will receive 75 percent (\$507,150) immediately upon a final decision in this proceeding and the ratepayers will receive 25 percent (\$169,050) in three equal installments of

⁵⁰ Great Oaks initially requested a partial amortization of this memorandum account, while CalAdvocates initially requested a full amortization. *See* Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 35 - 38.

⁵¹ *See* Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 37- 38.

\$56,350 by means of a \$56,350 deduction from authorized revenues in each of the three years of this rate cycle.⁵²

As discussed above,⁵³ Great Oaks initially proposed a partial amortization of the Conservation Lost Revenue and Expense Memorandum Account but later agreed to CalAdvocates' recommendation of a full amortization of that account.

2.13 Memorandum Accounts:

Great Oaks' Proposed Credit Card Pilot Program Account

The Parties agreed that Great Oaks would establish a Pilot Credit Card Program. The projected cost of the program for the Test Year is \$51,976. Initially, Great Oaks proposed that this account be opened as a balancing account but CalAdvocates countered that it should be established as a memorandum account. The Parties also disagreed over whether \$51,976 was a reliable projection for the annual cost of the program beyond the Test Year.

The Parties agreed that Great Oaks would establish a memorandum account for the program and, for purposes of recovery, would track and record its cost to operate and maintain the program.⁵⁴

⁵² See *id.*, at 36 - 37.

⁵³ See text accompanying footnotes 50 - 51, above.

⁵⁴ See Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 38 - 39.

2.14 Rate Design:**“Super-User” Tier for Single-Family Residential Customers**

Initially, Great Oaks proposed a conservation-oriented, four-tier rate design for single-family residential customers that included a “super-user” tier for those residential customers in single family homes using more than 56 ccfs every two months. CalAdvocates objected to the super user tier, and raised the possibility that the super-user tier might be a contributing factor, perhaps even the sole contributing factor, for a situation where revenues for Great Oaks would exceed its revenue requirements. In the settlement agreement, Great Oaks agreed to withdraw its request for a fourth, super-user tier for its single-family residential customers.⁵⁵

2.15 Rate Design:**Meter Service Charge**

The most distinctive feature of the Great Oaks’ rate case application is its proposal that rates be designed for the Test Year and beyond so that Great Oaks will recover 100 percent of its fixed costs through its monthly meter service charge. No Class A water company in California has been allowed to recover 100 percent of its fixed costs through its service charge. The Commission has only allowed water companies that are much smaller than Great Oaks and the other Class A water companies to employ this device as protection against the financial result if enough customers adopt vigorous conservation measures in the face of extreme drought. When normal water conditions prevail, the financial risk for Great Oaks diminishes substantially.

⁵⁵ See *id.*, at 41- 42.

The Parties settled on Great Oaks recovering 75 percent, rather than 100 percent, of its fixed costs through its meter service charge. This means that Great Oaks will recover approximately 33 percent of its total revenue from its meter service charge. This percentage of total revenue collected is below the 40 percent limit established by this Commission in D. 16-12-026.⁵⁶

2.16 Rate Design:

Rates for Single-Family Residential Customers

The Parties were able to work out a mutually acceptable, tiered, rate design for single-family, residential customers. Though they initially proposed different three-tiered designs, the Parties continued discussions that led to the following rate design:

Rate Design for Single-Family Residential Customers

Tier	Bi-Monthly CCFs	Rate/ccf
1	0 – 6	\$1.3024
2	7 – 24	\$2.6048
3	Over 24	\$3.9723

2.17 Revenues:

Water Service

Initially, the Parties proposed aggregate water revenue targets that differed by more than \$3.6 million; \$22,476,415 (Great Oaks) versus \$18,801,821

⁵⁶ D. 16-12-026 at page 56: “[W]e set a floor of 40 percent fixed charge for water IOU revenue recovery for class A and B water IOUs’ future water GRC applications... .”

(CalAdvocates).⁵⁷ This differential was largely the result of the previously described disagreement over which of two groundwater zones should be drawn upon more heavily. *See* discussion in section 2.2, above. But once this issue and other issues related to the calculation of metered water services were resolved, the parties agreed that metered water services for the Test Year should produce revenue equal to \$20,836,321.⁵⁸

2.18 Additional Agreements:

Safety, Emergency Preparedness and Asset Management

During this proceeding, CalAdvocates also made recommendations and secured agreements from Great Oaks that Great Oaks would take steps to improve safety by improving its emergency preparedness and response and better manage its assets. More specifically, Great Oaks agreed that it would (1) complete an update of its emergency response and preparedness plan within ninety (90) days of a final decision in this proceeding and provide the complete plan to the CalAdvocates and Commission through a Tier 1 advice letter filing; (2) complete an updated asset management plan and submit the plan in its next general rate case; and (3) complete an update and revision of its cross-connection control plan within ninety (90) days of a final decision in this proceeding and provide the complete plan to CalAdvocates and the Commission through a Tier 1 advice letter filing.

⁵⁷ *See* Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 45.

⁵⁸ *See* Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019, Exhibit A, at 45.

2.19 Additional Agreements:**Compliance**

CalAdvocates has reviewed all Great Oaks' responses to discovery and the evidence and testimony submitted by or on behalf of Great Oaks. CalAdvocates discovered no violation of the Commission's General Orders, Water Industry Rules or Specific Ordering Paragraphs.

3. The Settlement is Reasonable, Consistent with the Law and in the Public Interest

Rule 12.1(d) requires the Commission to approve only settlements that are reasonable, in light of the whole record; consistent with the law; and, in the public interest. It is well-established policy for the Commission to approve settlements when they are fair and reasonable, considering the whole record.⁵⁹

3.1 The Settlement is Reasonable, Considering the Whole Record

The record in this proceeding consists of: (1) all documents filed in this proceeding; (2) the served and filed testimony and accompanying exhibits of the Parties that is admitted by this decision; (3) the proposed settlement; and, (4) the joint motion for adoption of the settlement and the accompanying joint motion to admit the parties' written testimony and accompanying exhibits. The proposed settlement resolves all issues in this proceeding, both the by Great Oaks and the issues raised by CalAdvocates.

As described above, all issues raised in this proceeding were thoroughly vetted by Great Oaks and CalAdvocates. When necessary, CalAdvocates engaged in thorough written discovery seeking additional information regarding the issues raised in this proceeding and Great Oaks responded with the

⁵⁹ See, e.g., D.11-6-023 at 13; see also D.05-03-022 at 9.

requested information each time.⁶⁰ The Parties created and submitted a comprehensive description of the resolution of each issue in the proceeding.⁶¹ Their description shows that the Parties were sufficiently knowledgeable about each other's position. The description they provided of their negotiations also demonstrates that each party was amenable to correcting its errors and if their respective calculations still could not be harmonized, they pressed on and negotiated a mutually acceptable resolution. These are the hallmarks of reasonable resolutions of disputes.

Section 2 of this decision and Exhibits A and B of the Parties' Corrected Joint Motion to Adopt the Settlement contain descriptions of this process occurring again and again. We give weight to the comprehensive process the Parties followed to evaluate their respective positions and negotiate a comprehensive resolution of all the issues.⁶²

Exhibit A to the Joint Motion to Adopt the Settlement also points out that on several matters, there was no dispute between the parties at all. Either Great Oaks agreed entirely with CalAdvocates or vice-versa. Given the depths to which the Parties pursued matters on which they disagreed, there is even more reason to believe that consumers were well-served and fairly treated on those matters that were undisputed.

Thus, there is abundant evidence that the process of negotiating a global settlement was conducted in such a way as to be fair to both sides. A Comparison Exhibit of each Party's opening position and ultimate position on

⁶⁰ See Corrected Joint Motion to Adopt Settlement, filed May 20, 2019, at 6.

⁶¹ See *id.*, at 3 - 49.

⁶² In D.00-09-034, the Commission held that the parties' evaluation of the evidence should carry material weight in the Commission's review of a proposed settlement.

each matter is attached hereto as Attachment 1. It shows that a balanced settlement resulted from the negotiations, fair to both Great Oaks and its customers. The resulting Settlement Agreement is reasonable considering the record in this proceeding.

3.2 The Settlement Is Consistent with the Law

There are no provisions of the Settlement Agreement that attempt to bind the Commission in the future or violate existing law. Accordingly, the Parties' Settlement Agreement is consistent with the law. Furthermore, the record shows that Great Oaks has satisfied Commission directives regarding, for example, compliance with federal and state water quality standards and that CalAdvocates pursued and obtained from Great Oaks agreement to provide an even higher quality of water to its customers than federal and state law require. *See* section 2.3, above.

3.3 The Settlement Is in the Public Interest

Having all parties to a proceeding negotiate a complete settlement themselves is a lofty goal.⁶³ It was accomplished here. There will be no costly and protracted adversary proceeding to conduct; the settlement serves the public interest by resolving competing interests in a collaborative and cooperative manner. Furthermore, by reaching an agreement on all matters, the parties avoid the costs and uncertainties of future litigation of their disputes and potentially eliminate the costs for rehearing and appeal. By settling the parties provide themselves with a speedy and complete resolution of the issues, which benefits Great Oaks, its customers, its shareholders and the Commission.

⁶³ *See* D. 88-12-083, 30 CPUC 2d 189, 221.

The settlement terms include provisions that ensure that Great Oaks' customers will have access to a safe and reliable water supply at reasonable prices; Great Oaks and its shareholders will receive much of the financial stability it sought from being able to include 75 percent of its fixed costs in its service charge.

We also note here that the Settlement Agreement addresses to concerns raised by customers at the Public Participation Hearings.

3.4 Conclusion

In conclusion, the settlement will be adopted because it is reasonable in light of the whole record, consistent with the law and in the public interest. Adoption of the settlement is binding on all parties to the proceeding. However, because this decision approves a settlement, it does not bind the Commission or otherwise establish a precedent in this or any future proceeding.

4. Safety Considerations

Public Utility Code §451 requires that every utility must maintain adequate, efficient, just and reasonable service to promote the "safety, health, comfort and convenience of its patrons, employees and the public." No party raised any safety-related concerns during this proceeding that were not adequately addressed within other issues, *e.g.*, water quality. We have evaluated the Application and the Settlement Agreement and are satisfied that the Application does not present any additional safety related concerns that need to be addressed.

5. Admittance of Testimony and Exhibits into the Record

Since evidentiary hearings were not held in A. 18-07-002, there was no opportunity to enter prepared testimony and exhibits into the record. In order to assess the reasonableness of the settlement, it is necessary to include in the record

certain testimony and exhibits prepared by the individual Parties. In the Joint Motion to Admit Written Testimony and Supporting Exhibits into the Record, filed May 14, 2019, the Parties moved into evidence the testimony and exhibits listed in the charts below:

Great Oaks Exhibit	Description
Great Oaks-1	Report on Results of Operations, including all Exhibits thereto (served with A.18-07-002 as Exhibit D)
Great Oaks-2	GRC Workpapers (served with A.18-07-002 as Exhibit E)
Great Oaks-3	Capital Projects Justifications (served with A.18-07-002 as Exhibit G)
Great Oaks-4	Updates to A.18-07-002 (including all exhibits)(served August 20, 2018)
Great Oaks-5	Great Oaks Rebuttal Testimony (including all exhibits)(served November 16, 2018)
Great Oaks-6	Great Oaks' Combined Supplemental Response to Public Advocates Office Data Requests (including all attachments)(served March 21, 2019)

Public Advocates Office Exhibit	Description
Cal PA-1	Public Advocates Office's Report and Recommendations on the Results of Operations of Great Oaks Water Company Fiscal Test Year 2019/2020 Application 18-07-002 (including all exhibits and attachments thereto)
Cal PA-2	Public Advocates Office's Adjustments to Great Oaks' Exhibit E GRC Workpapers (workpapers supporting Cal PA-1)

The Parties' settlement of the issues in A. 18-07-002 is based upon the facts, analyses, and conclusions set forth in the above-listed written testimony and supporting exhibits.⁶⁴ All of the written testimony and supporting exhibits listed above are admitted into evidence.

6. Categorization and Need for a Hearing

In Resolution 176-3420, dated July 26, 2018, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that a hearing was necessary. In the Scoping Memo, the assigned Commissioner stated that evidentiary hearings would be held, if necessary. Because the Parties'

⁶⁴ See Joint Motion to Admit Written Testimony and Supporting Exhibits, filed May 14, 2019, at 4. Declarations attesting to the truth of the offered testimony are attached to the motion.

settled all issues in this proceeding, an evidentiary hearing is not necessary. Therefore, we change our preliminary determination regarding hearings to “no hearings are necessary.”

7. Waiver of Comment Period

This is now an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to §311(g)(2) of the Public Utilities Code and Rule 14.6 (c)(2) of the Commission’s Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

8. Assignment of Proceeding

Liane Randolph is the assigned Commissioner and Charles Ferguson is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Great Oaks is a Class A water utility subject to the Commission’s jurisdiction.
2. Great Oaks filed its Application 18-07-002 on July 2, 2018.
3. On August 7, 2018, CalAdvocates filed a timely protest.
4. On May 3, 2019, in a Joint Case Management Statement, Great Oaks and CalAdvocates announced that they had reached a complete settlement of all issues in the proceeding.
5. On May 20, 2019, Great Oaks and CalAdvocates filed a Corrected Joint Motion for Adoption of Settlement Agreement.
6. The record of the proceeding consists of Great Oaks’ application, written testimony from each of the two parties, their supporting exhibits and all other filings.
7. The Parties to the Settlement Agreement adopted by this decision have a thorough understanding of the issues and the underlying assumptions and data.

They could make informed decisions regarding the issues raised in the proceeding and the settlement of those same issues.

8. The proposed settlement is a reasonable balance between the original positions of the parties and their positions as otherwise posed in the prepared testimony of the parties.

Conclusions of Law

1. The Applicant alone bears the burden of proof to show its requests are reasonable.

2. Rule 12.1 (d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law and in the public interest.

3. The proposed settlement is reasonable considering the record because it balances the interests of the utility and the ratepayers.

4. The settlement is consistent with the law because it does not contravene or compromise any statutory provisions or prior Commission decisions.

5. Adoption of the settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the settlement does not bind this Commission or otherwise impose a precedent in this or any future proceeding.

6. The Motion to Adopt the Settlement Agreement and the terms of the Settlement Agreement should be adopted.

7. Great Oaks should be granted a revenue requirement of \$20,836,321 for Test Year 2019/2020.

8. Great Oaks should take the necessary actions to comply with the provisions set forth in the Settlement Agreement.

9. Great Oaks' and CalAdvocate's joint request to receive testimony and supporting exhibits into the record should be granted, as detailed herein.

10. There is no need for evidentiary hearings in this proceeding.

11. All rulings issued by the assigned Commissioner and ALJ should be affirmed herein; and, all motions not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

12. Given that no evidentiary hearings are needed, the preliminary determination regarding hearings should be changed to “no hearings are necessary.”

O R D E R

IT IS ORDERED that:

1. The corrected joint motion of Great Oaks Water Company and CalAdvocates to adopt their May 13, 2019 Settlement Agreement is granted. The Settlement Agreement attached to the Corrected Joint Motion to Adopt Settlement Agreement, filed May 20, 2019 in the docket of this proceeding, is approved.

2. A total revenue requirement of \$20,836,321 for Test Year 2019/2020 is adopted.

3. Great Oaks Water Company shall file a Tier 1 Advice Letter no later than 30 days after the effective date of this order to implement changes in rates associated with this decision. Tariffs sheets, consistent with all terms of this decision and effective July 1, 2019, shall be attached to the advice letter.

4. All rulings issued by the assigned Commissioner and Administrative Law Judge (ALJ) are affirmed; and, all motions, not specifically addressed herein or previously addressed by the assigned Commissioner or ALJ, are denied.

5. The prepared testimony and supporting exhibits submitted by Great Oaks Water Company on May 14, 2019 for inclusion in the record of this proceeding are received into evidence.

6. The prepared testimony and supporting exhibits submitted by CalAdvocates on May 14, 2019 for inclusion in the record of this proceeding are received into evidence.

7. The determination made in Resolution ALJ 176-3420 that hearings are necessary is changed to “no hearings are necessary.”

8. Today’s decision is effective immediately.

9. Application 18-07-002 is closed.

Dated _____, at Los Angeles, California.

ATTACHMENT 1